

Energy Credit Banking and Selling Program Annual Report FY 2017-2018

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Receiving Entities:

Joint Legislative Committee on Agriculture and Natural and Economic Resources
Fiscal Research Division

Submitting Entity:

State Energy Office of the Department of Environmental Quality

Introduction and Legal Authority

The Energy Policy Act (EPA) State and Alternative Fuel Provider Rule was implemented with provisions of Titles III-V of the Energy Policy Act (EPA) of 1992. EPA requires state government and alternative fuel provider fleets that operate, lease, or control 50 or more light-duty vehicles (LDV) within the United States to acquire alternative fuel vehicles (AFV).

Since 2001, as a covered fleet, EPA has required that 75% of North Carolina State Government new LDV acquisitions must be AFVs. The State Energy Office of the Department of Environmental Quality (DEQ) is the designated entity to report acquisition activity to the U.S. Department of Energy (DOE) by December 31 of each calendar year.

The State earns one vehicle credit for every light-duty AFV it acquires annually beyond the base vehicle acquisition requirements. Once the State has satisfied the annual light-duty AFV acquisition requirements, it also earns one credit for every heavy-duty AFV purchased annually. Credits generated by vehicle acquisitions can be sold or banked for future use, and credit trading is allowed between fleets that need to buy or sell banked credits. However, only credits that are tied to alternative fuel use in an AFV can be sold. In federal fiscal year 2017-2018, the State earned 37 AFV credits that can be sold. EPA credits have ranged in value between \$800 and \$1,100. The selling price is negotiated between the buyer and the seller. Upon completion of the negotiation, the final transaction is approved by the DEQ Energy Director.

As directed by statute, the State Energy Office in the Department of Environmental Quality has compiled this report and attached the guidelines and rules on the Energy Credit Banking and Selling Program. The report is based on data from the federal fiscal year cycle from October 1, 2017 through September 30, 2018. The provisions for the Energy Credit Banking and Selling Program were enacted by the 2005 General Assembly through Senate Bill 1149/S.L. 2005-413, with subsequent rules approved by the Rules Review Commission in April 2007, that became effective on May 1, 2007.

Guidelines for the Energy Policy Act (EPA) Credit Banking and Selling Program were developed, reviewed and approved at the May 9, 2007, meeting of the Alternative Fuels Consortium, and during the May 14, 2007, meeting of the Energy Policy Council. The Credit Selling Working (CSW) group is a subgroup of the Alternative Fuel Consortium. The CSW group consists of NC Department of Transportation's (DOT) equipment unit designee, Department of Administration Motor Fleet Management (MFM) Division designee, SEO designee, and designees representing other State agencies and institutions that generate EPA credits. The group meets to discuss the number of credits earned annually, the number that are deemed "sellable," and a price range with a minimum selling price for all credits.

Credits Earned, Sold, and Deposits to the Alternative Fuel Revolving Fund

The State of North Carolina, through the efforts MFM and the DOT, currently has 3,060 excess credits to sell based on analysis of sellable credits earned through alternative fuel use through federal fiscal year 2017-2018. No credits were sold for federal FY 16-17.

| EPAct CREDIT BANKING & SELLING PROGRAM | CREDITS Earned | SOLD | DEPOSITS |
|---|-----------------------|-------------|--------------------|
| FY 04-05 credits | 365 | - | - |
| FY 05-06 credits | 424 | - | - |
| FY 06-07 credits | 291 | 111 | \$110,760 |
| FY-07-08 credits | 353 | 429 | \$425,580 |
| FY- 08-09 credits | 112 | 4 | \$3,800 |
| FY- 09-10 credits | 252 | 372 | \$352,675 |
| FY-10-11 credits | 102 | 236 | \$220,400 |
| Y-11-12 credits | 297 | 200 | \$180,000 |
| FY-12-13 credits | 301 | 215 | \$196,500 |
| FY-13-14 credits | 299 | 0 | \$0 |
| FY-14-15 credits | 115 | 225 | \$192,000 |
| FY-15-16 credits | 112 | - | - |
| *FY-16-17 credits | 37 | - | - |
| TOTAL CREDITS | 3,060 | 1792 | \$1,681,715 |
| BALANCE of sellable credits | 3,060 | 1792 | \$1,681,715 |
| *credits that are eligible to be sold by the State of NC have been accrued through the use of E85 ethanol in flexible fuel vehicles (FFVs) operated by the Department of Motor Fleet Management | | | |
| SEO will submit the annual State and Alternative Fuel Provider Report to DOE by 12/31/2018 | | | |

Since the EPAct Credit Banking and Selling Program's inception, the completed trades of 1,792 credits has yielded a total of \$1,681,715, which has been deposited into the Alternative Fuel Revolving Fund (AFRF), held by the DEQ. These revenues and corresponding credits sold are listed in the following table.

For the time period ending September 7, 2018, a total of \$704,847.46 remains in the AFRF from the sale of credits and interest accrued on the fund balances resulting from these sales. The EPAct credit sales are handled through direct sales by the State Energy Office.

| Alternative Fuel Revolving Fund Summary September 2018 | Amount |
|---|---------------------|
| Beginning Balance | \$695,771.18 |
| Total interest | \$ 9,076.28 |
| Subtotal | \$704,847.46 |
| Total disbursements | \$486,764.00 |
| Balance as of 9-7-2018 | \$704,847.46 |

The AFRF was established to receive and disburse revenue from EPA credit sales. One credit is earned for each original equipment manufacturer or U.S. Environmental Protection Agency (EPA) certified retrofit, flex fuel vehicle (FFV), compressed natural gas, propane, or electric vehicle purchased by the State. Credits that exceed the annual minimum state AFV acquisition requirement of 75% of light duty purchases can be banked through the U.S. DOE Office of Freedom Car and Vehicle Technologies Program. Banked credits are used to meet future credit requirements, or are sold. Credits are also earned through the use of B20 biodiesel. Although these credits cannot be sold directly, they can help the State fleet meet its minimum acquisition requirements. One vehicle credit is accrued through the use of 2,250 gallons of B20, or 450 gallons of B100. However, only credits that are tied to the actual use of alternative fuel in the AFV may be sold. This means that biodiesel use cannot accrue saleable credits. State agencies must document and track the use of alternative fuel in AFVs for credits that are to be made available for sale.

The SEO currently lists credits on an open bulletin board on the U.S. DOE website so that other entities interested in purchasing credits can see what credits are available.

The SEO annually informs the Alternative Fuel Consortium of revenue deposited in the AFRF account and the percentage of these funds that were generated by each participating State agency and institution. To date, MFM and DOT have generated 50% of the sellable credits. Even though the credits generated by DOT for B20 use are not sellable, their use of B20 provides the opportunity for the State and MFM to exceed their minimum requirements. As a result, the credits generated by MFM through the use of E85 in FFVs are deemed eligible for sale.

AFRF Distributions

DOT made an inquiry in late August 2018 about using the funds to purchase alternative fuel work vehicles for their Depot. DOT currently uses large trucks for maintenance on the yard but is looking at fully electric work trucks with similar specifications and on-road capabilities. However; as of this time, no formal request has been made to access the funds.

The distribution of funds is prioritized by the Alternative Fuels Consortium based on maximizing benefits to the State for the purchase of alternative fuel, related refueling infrastructure, and AFVs. Both the Energy Policy Council and the Alternative Fuel Consortium deemed it necessary to establish a clear priority for the funds accrued by the sale of credits.